Section # 2

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April 24, 2020

To Do

- Op-ed reminder
- Grossman model
- Some thoughts on prices

Op-ed # 1

- Health policy topic
- Use the tools or intuitions you have learned in class (to what extent you can)
- 2-4 pages (1000-2000 words) without tables/figures but more importantly, make it interesting!
- use data and data analysis! This will help you make an argument convincing.
- If you haven't reached out to me about Op-ed, do so ASAP!

Grossman Model: general overview

- Basics of the model in a few words?
- How is this economic model different from other models? What about it is similar to other economic models?
- What do consumers value in Grossman model?

Grossman: Utility Function

- utility:

$$U(\quad,\quad)$$

Grossman: Utility Function

- utility:

$$U\left(H_t, Z_t\right)$$

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- utility:

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- Which of the two would work best for this model?
  a) $U\left(H_t, Z_t\right) = H_t^{\alpha} Z_t^{1-\alpha}$
  b) $U\left(H_t, Z_t\right) = \left(H_t - \underline{\mathrm{H}}\right)^{\alpha} Z_t^{1-\alpha}$

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$$T^W + T^H + T^Z + T^S \leq \Theta$$

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T^W : time spent working
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- Do we need H_t in the utility?

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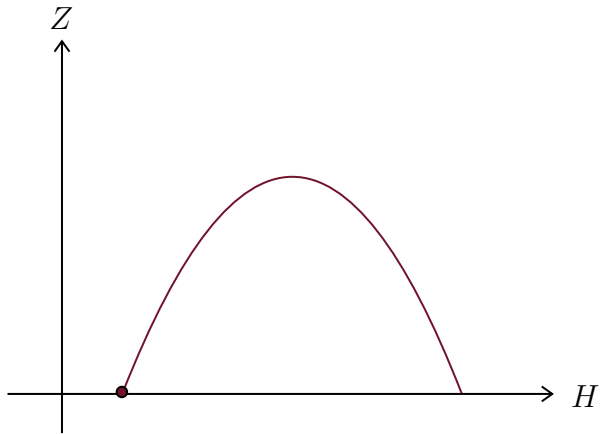

A Dynamic Version

$$\max_{???} \sum_{t=0}^{80} \beta^t U\left(H_t, Z_t\right)$$

A Dynamic Version

$$\max_{T_t^W, T_t^H, T_t^Z} \sum_{t=0}^{\infty} \beta^t U\left(H_t, Z_t\right)$$

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$$\text{s.t. } H_t = (1-\delta)H_{t-1} + I_t$$

$$T^W + T^H + T^Z + T^S \leq \Theta$$

Criticism of Grossman Model

- Health is both a *consumption* and *investment* good. Do you agree with this?
- Wouldn't this utility function make more sense?

$$U\left(S_t, Z_t\right)$$

Health Investment

Who should invest more in H_t?

- old or young?
- the healthy or the unhealthy?

Health Investment: MEI

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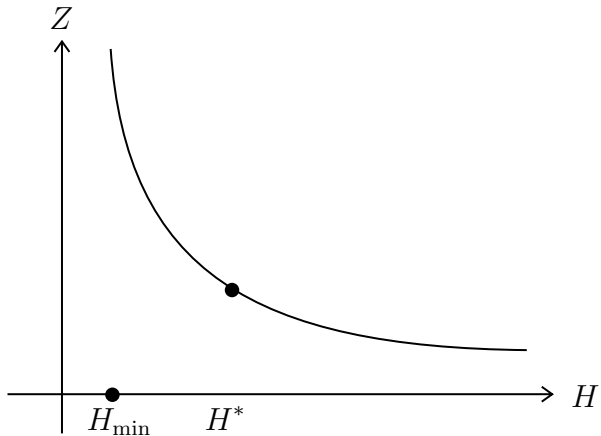

Health Care Price Index, 1

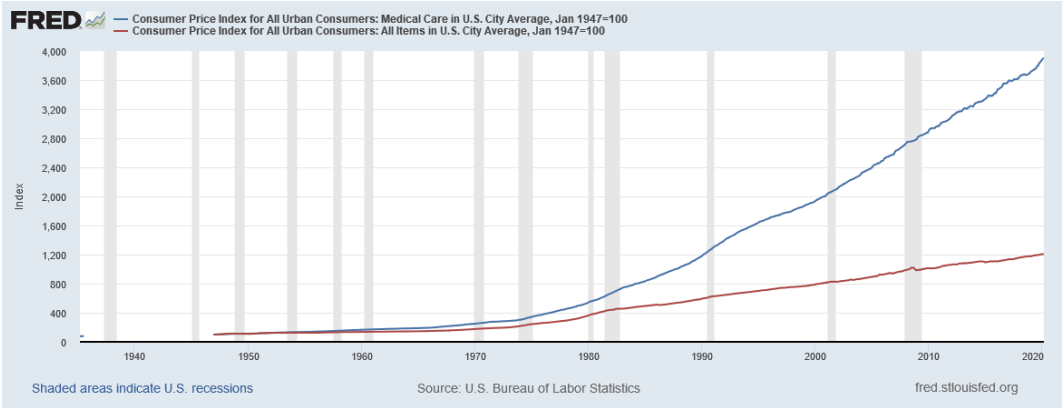

Figure: CPI for healthcare (blue) and overall (red)

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- Is what is shown in the plot necessarily bad?
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- What was the price of a polio cure in 1900? ∞
- What do you think is the optimal price of a cancer-curing drug?